

Subject 400

Individual Retirement Accounts (IRAs)

Contributions to an IRA can be deductible or non-deductible from your income. Whether you can take a deduction depends on the amount of your adjusted gross income and whether you were an active participant in an employer-maintained retirement plan.

If you participated in an employer's retirement plan, or if you were married and file a joint return or separately on the same return and either one of you participated in an employer's retirement plan, the dollar limit on your IRA deduction may be reduced, depending on the amount of your modified adjusted gross income and whether that income falls within a phase out range. Use the IRA phase out chart to calculate your allowable IRA deduction.

Even though your deductible IRA contributions may be reduced or eliminated, you can make nondeductible contributions to new or existing IRAs. Earnings on non-deductible and deductible contributions are not taxable until withdrawn.

The amount of deductible and/or non-deductible cash contributions to your IRA you can contribute are limited to the lesser of \$4,000 or your compensation that must be included in income for the year. Individuals who turned 50 before the close of the tax year may increase the maximum permitted annual contributions by up to \$1,000.

If both you and your spouse worked, and you each want to participate in an IRA, each of you may contribute to a separate IRA. If you file a joint return or separately on the same return, you could deduct up to \$4,000 of deductible or non-deductible contributions. However, if either of you is an active participant in a qualified plan, the annual gross income reported on your joint return must be less than \$75,000 to qualify to make a deductible contribution to an IRA.

If you establish an IRA for your non-working spouse, you must file a joint return or separately on the same return and establish two separate IRAs. You do not have to make equal contributions to each IRA, but you cannot contribute more than \$4,000 to either IRA for the year. You must file a joint return or separately on the same return, and he or she must choose to be treated as having no compensation for purposes of the IRA deduction.

The deadline for making a deductible or non-deductible contribution to an IRA for this current year is a due date of your federal return, not including any extension of time to file.

You may choose to take a deduction for your IRA contribution before the contribution is actually made, provided you make it before April 15th.

Roth IRA

Contributions to a Roth IRA are not excluded from income, but distributions and accumulated earnings are exempt from income if the funds were held for at least five years, and distributions are made after age 59 1/2. Each taxpayer may contribute up to \$4,000 annually subject to phase out based on income limitations – Joint filers - \$150,000 - \$160,000; Single filers - \$95,000 - \$110,000. Converting a traditional IRA to a Roth results in taxable income at the time of conversion.